

First Quarter 2009

When I last wrote, our country was experiencing the emotional inauguration of our first African American president. There was hope that the stock market would improve now that the awkward presidential transition period was over. We would see clarification as to the new administration's fiscal and monetary policies and get definitive answers on how the economic crisis would be dealt with. What we experienced instead was a roller coaster ride with the stock market plunging another 20% on top of the 2008 losses before rebounding 23% by mid-April. March 2009 was the best month for the market in almost seven years. Having said that, the S & P 500 finished the quarter down 11%.

What intrigues me most is the range of emotions clients and friends are feeling and the way in which the moves of the stock market have pervaded everyday life. On a recent business trip to New York City, I was amazed by how hard it is to get away from CNBC. There are TVs tuned to the channel everywhere, including nondescript local diners as well as lobbies of most office buildings. When the market was declining again in February and early March, everyone sounded depressed, feeling as if this was never going to end. A few weeks later when the market started rallying, people felt better again. In a two week period we all went from wanting to do something to stop the losses and curtailing spending to feeling ready to invest again now that things are better. Are they really better or do we just feel better because the market moved in the right direction?

The reason for these emotional ups and downs is that there are still many mixed signs out there. On the negative side, the credit markets are still not functionally normal. GM and Chrysler appear more likely headed for bankruptcy. Unemployment continues to rise and consumer spending is still down. Companies have scaled back capital spending. On the other hand, there are "glimmers of hope." While the economy is still slowing, the rate of decline is decreasing. The Fed's monetary policy response appears to be working, albeit slowly. There is more liquidity out there, mortgage rates are lower and certain companies have been able to tap the capital markets. The fiscal stimulus package should boost demand beginning this spring into 2010. There are signs that the housing market may be nearing a bottom. So while risk appetites are still low, volatility remains high and the financial markets are still under stress, conditions have clearly improved since last fall.

Are we therefore at the beginning of a bull market or at the end of a bear market rally? As Sir John Templeton once said "a bull market begins on pessimism, grows on skepticism, matures on optimism, and dies on euphoria." We have moved from a period of intense fear and pessimism among investors to an environment of cautious optimism. We are by no means out of the woods, however, and I suspect we will continue to experience above normal volatility as the market reacts to short term news both good and bad. Remember that pundits talked "doom and gloom" scenarios during past crises (1973-1974, crash of 1987, internet bubble burst.) Each time we grew and thrived following such devastating events, and we will do so again at some point. The big unknown is when. In the meantime, stay braced for more volatility as this recovery is unlikely to be "V" shaped. Stay focused on your goals and try not to let your emotions get the best of you.

Have an enjoyable Spring!

